

## CHINA'S ECONOMIC DEVELOPMENT ASSISTANCE TO THE PHILIPPINES: A Preliminary Assessment\*

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Field research was undertaken during summer vacations (from 2002 to 2008) in Nueva Ecija, Ilocos Sur, and General Santos. Hence, the observations and analysis presented in this paper are limited to these years. This researcher does not claim to provide a comprehensive analysis of the three projects, much less claim that all the data are up-to-date. Subsequent developments on the success, failure, efficacy and other outcomes of these three projects need further research.

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China's Development Assistance Program increased in the 1990s when the country emerged as one of the world's leading economic and manufacturing centers in the world. This enabled her to amass at least USD 1.797 trillion reserves in 2007. To harness this huge amount of cash, China decided to invest in other countries by undertaking joint economic ventures and extend economic development assistance projects abroad. Besides promoting better and wider international relations, China is ensuring reliable sources of raw materials particularly metals, oil and natural gas, and other natural resources to sustain its economic growth.

In the case of the Philippines, China initiated economic development projects in earnest in 1999 to 2000. This paper discusses three ongoing and completed projects, the terms of agreements, agencies involved, and respective obligations. Two other projects, which are the subject of much controversy and are on hold, will not be discussed: the extension and improvement of the north and south railway lines and the installation of a national broadband network by the Chinese corporation ZTE.

This paper brings up implications on future studies on the impact of a vast country like China whose people, civilization, governmental policies, and foreign relations impinge on internal Philippine developments. This paper proposes that any serious study of social, economic, and political developments of a small, developing country like the Philippines must take into account our relations with other countries, much more so with our relations with China. Finally, while this paper presents the technical and administrative problems that deter the full implementation of the projects, the discussion brings up the socio-cultural circumstances that tend to impede successful completions of the projects and provide tentative suggestions on how China's official development assistance (ODA) projects may be improved.

## **China-funded Economic Assistance Projects**

**Philippine-Sino Center for Agricultural Technology (PhilSCAT).** The Department of Agriculture (DA) allocated PhP 10.5 million for the construction of PhilSCAT in Muñoz, Nueva Ecija. The project, a part of the USD 100 million ODA from China, was completed in 2002. It was implemented by the China National Construction and Agricultural Machinery Corporation, which will supply the Philippines with agricultural machinery and technical assistance for testing hybrid rice varieties donated by China; planters, harvesters, milling and drying machinery; and other post-harvest technology and facilities.

**The Banaoang I and II Pump Irrigation Project,** worth USD 35 million, is a supply contract by China National Construction and Agricultural Machinery Import and Export Corporation (CAMC) to finance 90 percent of goods and services to implement the project.

**The Banaoang I Irrigation Project** is expected to irrigate 6,000 hectares in six municipalities in Ilocos Sur. It involves the construction of irrigation channels, a bridge, a tunnel, the improvement of farm-to-market roads and drainage infrastructures, as well as the installation of power supply and electrical transmission lines.

**The General Santos Fish Port Expansion Project** involves the construction of two wharves and the dredging of the surrounding Sarangani Bay to allow docking of larger vessels. It includes the construction of a breakwater, a 3,000 metric ton capacity cold storage facility, an additional wastewater treatment plant, a power sub-station, the provision of port handling machinery and equipment, and a helipad.

Agricultural assistance programs, which the Philippines and China agreed to undertake, were intended to foster the economic and agricultural development of the Philippines. The programs

were in accordance with Republic Act 8435, otherwise known as the Agriculture and Fisheries Modernization Act, spearheaded by then secretary of Agriculture Edgardo Angara during the presidency of Joseph Estrada.

RA 8435 mandates the DA to:

- modernize the agriculture and fisheries sectors by transforming these sectors from a resource-based to a technology-based industry;
- enhance profits and incomes in the agricultural and fisheries sectors by ensuring equitable access to assets, resources, and services; and
- promote higher value-added processing agribusiness and aquaculture activities and agro-industrialization among others.

To meet these goals, the DA sought local funding through the annual General Appropriations as well as DA grants and loans. The DA also initiated upon approval of the Department of Finance (DoF) credit from other countries with whom the government of the Philippines has bilateral relations.

### ***Philippine-Sino Center for Agricultural Technology (PhilSCAT)***

The first project, PhilSCAT, at the Central Luzon State University in Muñoz, Nueva Ecija, is part of the USD 100 million aid agreement to our country entered into with CAMC, owned and operated by the government of the People's Republic of China. Under this agreement, the Philippines can avail of farm machinery, equipment, and technical services from CAMC that cover the entire process of agricultural production.

CAMC provides mechanical transplanters, mechanical harvesters, milling and drying machinery, and other post-harvest equipment, plus technical training of Filipinos in order to operate and maintain these machines. Several farm machineries were

customized to meet specific Philippine conditions. Agricultural and engineering experts from CAMC provide continuous training for Filipinos under the supervision of Romeo Gavino, Filipino director and a faculty member of the Central Luzon State University, and Chinese agronomist Cheng Liangji. The Philippine side, through the DA, provided the land and allocated PhP 10.5 million for the construction of PhilSCAT buildings and training facilities. The project was finished in 2002. However, the proposed farmers' service center did not materialize.

Chinese CAMC engineers and technicians demonstrated the efficacy of their agricultural machinery and equipment to the Filipino farmers. However, most of the farmers could not afford to buy the machinery. There is a need to provide credit to farmers and/or farmers' cooperative that will administer and manage proper use, maintenance of machinery, and loan payments. PhilSCAT officials have submitted the second phase project proposal to the Philippine and Chinese governments to extend, expand, and develop innovative projects.

### ***Banaoang Irrigation Project***

The second project is a loan agreement amounting to USD 3.5 million to build irrigation works in Banaoang, Ilocos Sur. It intends to irrigate 6,000 hectares of rice lands to be implemented through CAMC, the DA, and the National Irrigation Administration (NIA).

An outcome of President Gloria M. Arroyo's visit to China when an agreement was signed with Ambassador Josue Villa, the project is supposed to benefit 6,000 farmers and would increase yield from two metric tons per hectare to five to six metric tons per hectare a year. It would also enable them to plant two crops per year. At present, Ilokano farmers resort to planting tobacco for lack of irrigation facilities. Water for irrigation will be drawn

from Abra River and would have a capacity of seven times 12 cubic meters.

The irrigation project is in the form of an export credit facility for the construction, repair, and expansion of irrigation systems in Banaoang. The Banaoang I Pump Irrigation project is worth USD 35 million and is expected to irrigate 6,000 hectares in six municipalities in Ilocos Sur. It also involves the construction and improvement of farm-to-market roads and drainage infrastructures, the building of a tunnel and bridges across lateral irrigation channels, the supply of electric power, and the putting up of transmission lines. Terms of reference were undertaken in three stages: 1) detailed design, 2) tendering, and 3) project implementation. A technical working group was implementing the project since December 2000.

Until his retirement, Edilberto Punzal, NIA project director, was in charge of the Banaoang I Pump Irrigation Project. He was replaced by Engineer Jaime Paguio in the main office in Quezon City and site engineers Rex R. Rabanal and Arnulfo A. Lagasca in Banaoang.

Banaoang I is located in the area covering the municipalities of Vigan, Bantay, San Vicente, San Ildefonso, Sto. Domingo, and Magsingal – all in the first district of Ilocos Sur. It is expected to irrigate 6,000 hectares and an estimated 5,215 farm households will directly benefit from the project. Implemented in 2003-2005, its estimated total cost is PhP 1,340, 310, 000. The local component is PhP 585,063,000 while the foreign component is PhP 655,247,000.

The project taps water from Abra River that flows from the mountains in the north going west to the West Philippine Sea (South China Sea), and its tributary that flows south will be the main source of irrigation water. The pumping station with seven units of electric-powered pumps was constructed at the right bank of the river about 150 meters upstream of the Banaoang Bridge. A

15 kilometer, 67 kilovolt transmission line was installed from the National Power Corporation sub-station in Bantay to the project site to provide the electric requirements. A 600 meter tunnel was also constructed to connect the pump station to the main canal. The total length of the main canal is about 20.60 kilometers and will distribute water through a network of lateral and sub-lateral canals. The project is estimated to be economically viable with an economic internal rate of return of 20.05 percent, way above the minimum 15 percent requirement set by our government.

To ensure that the project is environmentally sound, the project was submitted for evaluation to the Department of Energy and Natural Resources. And the permission was obtained from the National Water Resources Board as well as the Department of Energy to ensure that the supply of water and electricity is sufficient and economical. According to Director Punzal, the project is important to the Ilocos farmers since the area is subject to periodic droughts.

The project is near completion but was halted because of an unforeseen occurrence of salt water in the lateral irrigation channels. The discovery of brackish water in the irrigation channels necessitates extending the channels four kilometers more inland to tap sweet water, which was not anticipated when the design and plans were drawn.

The extension requires additional funding amounting to Php 1.2 million. Because of the shortfall of funds, Banaoang I remains incomplete. The NIA, through the DA, is seeking the approval of the Investment Coordination Committee (ICC), the National Economic Development Authority (NEDA), and the DoF for additional funds so that Banaoang I can eventually be completed and become fully operational.

### ***General Santos Fish Port Project***

The third project is the General Santos Fish Port expansion

project worth USD 30 million. It involves the construction of two wharves, a breakwater, a 3,000 metric ton capacity cold storage facility (at -40 to -45 degrees Celsius), an additional waste water treatment plant, a power sub-station, the provision of port handling machinery and equipment, and a helipad.

The NEDA ICC Technical Committee and the DA's Philippine Fisheries Development Authority were asked to comply with additional requirements before the project was elevated for deliberation at the ICC-Cabinet level. The DA requested Chinese officials to further study the terms of conditions of the CAMC loan assistance in order to make it more attractive to the Philippine government and the private sector. Negotiations started in September 1999, when an agreement on cooperation in the field of agriculture and other related areas was forged between the Philippines and the People's Republic of China (PRC).

Similarly, in May 2000, a memorandum of understanding (MOU) on cooperation in the field of agriculture, irrigation, and other related areas between the two countries was signed. To effect this MOU, a financial protocol was established in December 2000, defining the project areas where the supply credit will be used.

It is this financial protocol that contained the intention of the PRC to extend USD 100 million. Part of the money is an outright grant for the post-harvest facilities and farmers' training center that was undertaken in Muñoz, Nueva Ecija. The rest of the funds came in the form of an export credit facility for repair, extension, and construction of the Ilocos Sur irrigation systems.

The improvement and expansion of the General Santos Fish Port is a continuation of an earlier project financed by the Japanese Overseas Economic Cooperation Fund amounting to PhP 600 million. The project consisted of providing post-harvest facilities in Barangay Tamblar, along the shores of Sarangani Bay 32 kilometers south of the city proper. The port's harbor and landing



facilities were opened to the public in July 1998 and became fully operational in February 1999.

While the General Santos Fish Port Complex was being constructed, the SOCCSKARGEN (South Cotabato-Cotabato-Sultan Kudarat-Sarangani-General Santos) economic growth area was developing into a profitable business enclave and General Santos City has emerged as the region's principal fish trading zone. The rapidly increasing population in the area, as well as the establishment of the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area, increased local and international demand for fish and fishery products, far greater than anticipated.

In response to the rapid economic development in the area and to cater to the mounting needs of the quickly developing industrial activities in fishing and processing, the private sector engaged in fishing and marketing activities. They utilized the port facilities while undertaking very substantial investments in establishing private jetties and cold storage facilities of their own. This resulted in a lot of establishments scattered all over the waterfront area along the 10 kilometer long coastline. Thus, in order to centralize activities related to the unloading of fishing vessels and carriers and the proper handling and distribution of fish, the government decided that the existing facilities of the General Santos Fish Port Complex have to be improved and expanded.

When the supply credit between the DA as the implementing agency and CAMC took effect, the expansion project of the General Santos Fish Port Complex was implemented in three years. Aimed to benefit fishing vessel operators, fish processors, and fish canneries, this project involves the construction of the following additional facilities: 500 meter deep draft wharves to accommodate large tonnage fishing vessels of over 300 gross register tonnage; a 1500 metric ton cold storage facility; a 500 cubic meter waste water treatment plant; a 650 kilovolt-ampere

power sub-station with 600 kilowatts, a 750 kilovolt-ampere stand-by generator set; and wharf handling machinery and equipment.

According to Engr. Rodrigo Bulaon, who oversees the General Santos Fish Port facilities, the General Santos Fish Port, together with the other projects undertaken by the DA with CAMC, will definitely increase employment opportunities and improve the quality of fish products to make Philippine marine exports more competitive in the international market.

## **Success and Challenges**

The successful implementation of these three projects can be attributed to the careful adherence of all the DA line agencies to the laws, regulations, and other requirements of all the concerned agencies of our government. All of the projects undertaken by the DA were scrutinized by the ICC Technical Board who deliberated on the proposals and once approved needed favorable recommendation not only from the ICC Technical Board but also the ICC Cabinet Committee.

After approval by these two entities, the proposals were submitted to the NEDA Board whose approval was needed before the projects could be implemented. Only then could projects be assured of allocation of funds drawn from the national budget to meet the cost of the projects and other financial obligations under the loan agreements.

Other ODA projects were not implemented. Apparently, the projects on the expansion of the north and south railways and the broadband project with ZTE were signed at the top level of government. Unlike the three ODA projects discussed earlier, the expansion of the north and south railway lines and the broadband project were signed without going through the long and difficult

process of scrutiny and approval of all the agencies and entities concerned.

Adding to the difficulties and hindrances in carrying out the railway and ZTE projects was the alleged over pricing of the projects and other anomalous payments to certain individuals and groups. Exacerbating the nullification of these projects was the hostility of opposition parties to the Arroyo government that beclouded rational and scientific assessment of all joint projects with China. Hence, the DA personnel are pessimistic about the implementation of several key economic assistance projects being proposed to China for funding. These are the Banaoang II Irrigation project in Ilocos Sur, the Balingasog Irrigation project in Maguindanao, and the improvement and expansion of the Navotas fish port in Manila. Apparently, the fiasco of the railway and ZTE projects deters all government deliberations on these proposed and economically vital projects.

Two additional project proposals are being pursued but not implemented: the grain processing project of the Central Isulan Multi-Purpose Cooperative in Sultan Kudarat, Central Mindanao and a mango processing project of the Isabela Mango Growers Development Cooperative. An MOU was signed among the DA, through the Bureau of Post-Harvest Research and Extension (BPHRE), the Isulan Multi-Purpose Cooperative Inc., and two Chinese corporations – China Technical Import and Export Corporation (CNTIC) and Golden Harvest Global Corporation (GHGC). A project feasibility study was prepared and the loan agreement is being worked out. Likewise, an MOU was signed among the DA, the BPHRE, the Isabela Mango Growers' Cooperative, and China's CNTIC and GHGC. The feasibility study is being reviewed by the BPHRE.

## **Social-Cultural Deterrents in Implementing China-funded Projects**

The main hindrance in the smooth implementation of these projects, according to the DA personnel, is the language barrier. It takes hours before both sides could agree on any issue because of the laborious process of translation. Field workers are often at a loss when there is no competent interpreter-translator available.

Also a hindrance is the confusion among the Chinese engineers and experts because of the many layers of Philippine bureaucracy that requires so much paperwork and the need to negotiate with many different personnel at different levels who are often replaced or transferred when top government officials change. The Chinese also complain of lack of coordination among the different government agencies: the DA with the ICC and NEDA, DFA and DoF, and the local government units.

Another irritant is the very strict and rigid method in the issuing of visas to Chinese engineers and technicians who are made to undergo stern examination by Philippine immigration and customs officers. This is due to the difficulty of ascertaining the identities of Chinese nationals entering the country whose names are often similar to those suspected of criminal activities. Moreover, most Filipino engineers and experts are accustomed to the United States, European Union, and Japanese machinery and equipment; most of them were trained in the countries concerned. It will take time for Filipinos to understand, familiarize themselves with, and trust Chinese-made machinery and technology, which are all new to them.

It should be pointed out that Chinese engineers and technicians customized the China-made farm machinery and equipment used at PhilSCAT demonstration farms. Despite these difficulties, the projects were successfully implemented because of the high level of expertise, patience, and industry of Filipino and Chinese

personnel. Other problems that usually arise with respect to infrastructure projects are the need to maintain, upgrade, and safeguard the structures and machinery.

Addressing the technical and construction aspects is not sufficient. Equally important is social and political organization in the communities where the infrastructure is located. In the case of the irrigation projects in Ilocos Sur, the beneficiaries of the irrigation works and the communities in the area need to be organized to help the DA and NIA in taking care of the structures, and organize mode of use and distribution of water, and accompanying responsibilities. Perhaps, there is a need to resuscitate the indigenous Ilokano Sangria system that traditionally took care of building, maintaining, and supervising proper use of facilities, water distribution and in meeting financial obligations. The DA and NIA personnel are technical people and are not equipped to undertake social mobilization. They could, however, assign this task to another DA agency, the Bureau of Agricultural Extension.

They can also solicit the help of the respective local government officials in the area. Instead of inviting them only during ribbon-cutting ceremonies, the DA can appeal to them to share part of their countryside development fund to organize community support, maintain infrastructure and facilities, and help meet financial obligations. Ilocos Sur Rep. Ronald V. Singson, Nueva Ecija Rep. Eduardo Nonato Josen, and General Santos Rep. Darlene Antonino-Custodio should be made aware of the benefits of the infrastructure to their districts as well as the obligations to maintain and upgrade the facilities.

Moreover, there is a need to ensure that these infrastructures and facilities benefit the small farmers and fisher folk rather than big multinational agricultural and fishing corporations. Many of the individual small-scale farmers and fisher folk cannot afford to pay for the cost of the agricultural machinery and fish port

facilities. This requires an extension of credit and organizing small individual farmers and fisherfolks into cooperatives so that they can share benefits and costs.

## **Tentative Suggestions for Improving Implementation of China-funded Projects**

In order to improve and enhance relations with China and derive as much benefit from economic development aid and other loan agreements, the following must be carried out.

1. Renegotiate terms of loan lower than three percent per annum.
2. Ask for longer period of repayment from 10-year period to 20-25.
3. Reduce the required 10 percent down payment of the total cost to five percent, or, better still, zero percent.
4. Include inflation rates in the computation of funding.
5. Review and re-assess projects for their cost-effectiveness and ecological sustainability.
6. Apply better coordination of all government officials from the national to the local levels.
7. Employ the best and most effective experts and specialists to train local personnel.

In conclusion, we should not lose sight of the whole purpose of economic development assistance. All projects should benefit the majority of our people especially primary producers – the farmers and the fisherfolk, and make sure that every sector helps in conserving the environment.